

Billy Milam, president of RaceTrac Petroleum Inc. and member of the NACS Research Committee, shared industry performance numbers with attendees.

NACS State of the Industry Summit

UP, UP AND AWAY

Industry numbers hit an all-time high in 2014, with nearly every category, quartile and region recording gains.

BY JERRY SOVERINSKY



ast year, if you didn't make money, you've got to go," said Tom Kloza, global head of energy analysis for OPIS, commenting on 2014 industry performance at this year's NACS State of the Industry (SOI) Summit, held April 14-16 in Chicago. "You're not going to see a year like 2014 often."

He didn't have to say much more to convince the standing-room-only crowd of that sentiment. For several years, it's been fair to gauge industry performance based on attendance at the SOI Summit. Since 2009, in fact, following a year characterized by the nasty "D" word — Depression — attendance at the event has steadily swelled, a correlation to overall industry sales and profits.

However, even this year's 476 SOI Summit attendees — 15% more than last year — failed to top last year's achievements. Pretax profit surged 46.5% to \$10.4 billion in 2014, following an already robust 2013 that established its own industry record for in-store sales.

Granted, most Summit presenters acknowledged that unique, external circumstances, which led to unusually high fuel margins, drove the overall profit increase, but performance was still impressive in nearly all other key categories and metrics.

Indeed, one had to look hard to find weak spots in any of the numbers, and Billy Milam, president of RaceTrac Petroleum Inc., conceded as much during his opening day presentation. "This might be a tired argument," he went on, "but [the card companies] took \$11.4 billion, \$1 billion more than our profits."

Quite simply, things are looking good for the convenience store industry, whose collective (just a smidge under) \$700 billion in sales exceeds the GDP of Switzerland, and whose inside sales of \$213.5 billion equal the total industry sales — inside and out — from 1998. Indeed, were the convenience store industry a country, it would rank in the top 20 globally in terms of production.

Regular Unleaded Margins

2013: **19.0%**

2014: **22.3%**

A 17.4% difference

(Source: CSX, LLC)

A palpable, pervasive excitement was felt among the Summit crowd, an overwhelming enthusiasm that has resolutely replaced nervousness (2012 and 2013) and despair (2008 through 2011). Attendees were anxiously awaiting their collective progress report, which did not disappoint.

But first, came the caveats.

WHAT'S ON THE HORIZON

"The [convenience store customer] has changed," said Milam, member of the NACS Research Committee, who stressed a long-term perspective for growth. "Our customer is different and the expectation is different." Income bifurcation — the difference between the top 20% versus 80% of income earners — continues to grow. "How does this impact us?" he asked rhetorically. "The people in the bottom 80% have less income to make purchases."

Meanwhile, the numbers of miles driven in the United States are stagnant; combined with rising fuel efficiency, gas volume sales steadily declined from 2007-2012 (it rose slightly in 2014). But clearly, with overall vehicle fuel efficiency up more than 25% over recent years, the convenience-petroleum paradigm is shifting. ("By 2030, we'll have another 22% destruction in gasoline demand," John Eichberger, vice president of government relations for NACS, said later that morning. "It's going to change the nature of the market.") And while gas consumption may be down, it's not slowing the expansion of the convenience format.

Numbers Race

"One in three brick-and-mortar retail establishments in this country are a convenience store," Milam said. "We dominate the landscape with [more than] 150,000 stores."

In fact, the U.S. convenience industry store count of 152,794 stores is a 1% climb from 2013 and 28% increase from 2000. But growth is not restricted to the convenience store industry. Over the past two years, the dollar store leaders have experienced even greater store count growth (Dollar Tree is up 6.9% and Dollar General 6.0%), while drugstore chain CVS is up 2.6% and Walmart has grown 4.9%. "So how do we stifle that [growth]?" Milam asked. It's a concern that merits attention.

Over the past year, a number of retail-restaurant deals have been consummated, generating staggering valuations — Walgreens/Alliance Boots (\$15.3 billion), Burger King/Tim Hortons (\$13.4 billion) and Dollar Tree/Family Dollar (\$8.5 billion) — consolidations that pose increasing competition to convenience stores. And while Amazon's drone delivery may have run into a snag with the federal government, Milam said the mega-online retailer is looking at an innovative

brick-and-mortar format that eschews checkout lines and cash registers.

"You don't have to talk with anyone. It's that kind of forward thinking that we need to think about." Throw in roaming convenience trucks that venture to the customer (even a Starbucks version that includes mobile payments) and a corner store concept of on-demand delivery brought to you by Uber, and retail may look quite different in the coming years, Milam warned. "These guys are thinking about how to turn retail on its head."

THE NUMBERS

But still, no matter these tectonic shifts in consumer preferences and retailing dynamics, the convenience store industry is currently getting things right. Nearly two hours into this year's SOI Summit, it was time for some bottom-line results (% change from 2013):

Industry

- **Inside sales:** \$213.5 billion (+4.6%)
- **Fuel sales:** \$482.6 billion (-1.8%)
- **Card fees:** (\$11.4 billion (+2.3%))
- **Employees:** 2.43 million (+10.6%)
- **Fuel margin** (cents/gallon): 22.2 cents (+18.8%)
- **Fuel margin** (net card fees): 16.9 cents (+26.4%)

While motor fuels prices were down nine cents per gallon (\$3.45 to \$3.36) in 2014, this created a six-cents-per-gallon lift in margin (18.7 cents to 25.0 cents).

Same Firms

Meanwhile, same store performance recorded sizable increases in in-store sales and an uptick in fuel gallons sold (% change from 2013):

- **Total sales:** \$596,004 (-0.2%)
- **Fuel sales:** \$477,390 (-1.8%)
- **Fuel gallons:** 143,780 (+2.3%)
- **In-store sales:** \$146,049 (+4.6%)
- **Foodservice sales:** \$28,170 (+9.7%)
- **Merchandise sales:** \$118,403 (+3.4%)
- **Merchandise sales (less cigarettes):** \$70,936 (+5.5%)
- **Cigarette sales:** \$48,479 (+0.1%)

"I'll take the 0.1% [increase] in cigarettes sales, given the declines we've seen over the past few years," Milam said.

Same-store sales for convenience store competitors were mixed, with Walgreens recording the strongest gain (+9.3%), followed by Dollar General (+3.1%) and Rite Aid (+1.3%). While CVS saw just a 0.5% increase in sales, the rise is notable considering the company no longer sells cig-

Core Direct Store Operating Expenses

Per Store/Per Month	2013	2014	△
Wages & Benefits	\$22,391	\$23,899	6.7%
Credit Card Charges	\$7,045	\$7,189	2.0%
Utilities	\$3,052	\$3,262	6.9%
Repairs & Maintenance	\$3,016	\$3,203	6.2%
Supplies	\$1,397	\$1,542	10.4%
Total DSOE	\$43,429	\$45,693	5.2%
Facility Expense	\$9,537	\$9,981	4.7%
Total DSOE & Facility Expense	\$52,966	\$55,673	5.1%

(Source: CSX, LLC)

arettes. "We need to pay attention to major chains," Milam warned again.

Part of that effort — to fend off competitors — will require a boost in efficiencies and gross profit dollars, something the convenience channel accomplished convincingly in 2014, with monthly totals as follows (% change from 2013):

- **Total gross profit:** \$81,833 (+11.8%)
- **Fuel:** \$32,314 (+22.8%)
- **Fuel pool margin:** 22.47 (+20.1%)
- **Fuel margin (less card fees):** 17.19 (+28.2%)
- **In-store:** \$47,382 (+6.2%)
- **Foodservice:** \$15,892 (+9.8%)
- **Merchandise:** \$31,786 (+4.3%)
- **Merchandise (less cigarettes):** \$25,514 (+6.4%)
- **Cigarettes:** \$6,562 (-2.6%)

"Gross profit is up," Milam proclaimed, a nearly across-the-board (less cigarettes) rise that is outpacing expenses two-to-one.

At the same time, key expenses are growing. "driven by supplies, repairs and maintenance and wages ... with utilities and card fees [mitigating] those numbers," Milam said. Expect expenses to continue to rise, he warned, with 29 states adopting a minimum wage increase in 2015 that is greater than the federal level.

Among wages and benefits, health insurance costs jumped 11.7% in 2014 to \$1,750 per store per month, in part because of growth in part- and full-time employee numbers.

Speaking of employees, Milam pointed to employee turnover, which has grown considerably in just the past four years:

- **Non-manager:** 68.0% to 80.7%
- **Manager:** 14.1% to 14.4%

Sales

Same Firms

Per Store/Per Month	2013	2014	△
Total All Sales	\$597,069	\$596,004	(0.2)%
Fuel Sales	\$486,314	\$477,390	(1.8)%
Fuel Gallons	140,586	143,780	2.3%
Average Selling Price	\$3.46	\$3.32	(4.0)%
In-Store Sales	\$139,680	\$146,049	4.6%
Foodservice Sales	\$25,675	\$28,170	9.7%
Merchandise Sales	\$114,534	\$118,403	3.4%
Mdse-Cigarettes	\$67,243	\$70,936	5.5%
Cigarettes	\$48,411	\$48,479	0.1%

(Source: CSX, LLC)

Gross Profit \$

Same Firms

Per Store/Per Month	2013	2014	△
Total Gross Profit	\$73,179	\$81,833	11.8%
Fuel	\$26,304	\$32,314	22.8%
Pool Margin	18.71	22.47	20.1%
Margin-CC Fees	13.41	17.19	28.2%
In-Store Sales	\$44,636	\$47,382	6.2%
Foodservice	\$14,472	\$15,892	9.8%
Merchandise	\$30,462	\$31,786	4.3%
Mdse-Cigarettes	\$23,986	\$25,514	6.4%
Cigarettes	\$6,739	\$6,562	(2.6)%

(Source: CSX, LLC)

PRODUCTIVITY

Milam also presented a detailed analysis of quartile performance, breakouts that will also be available in the soon-to-be-released *NACS State of the Industry Report of 2014 Data*. As a benchmark, keep in mind the following top-quartile productivity numbers, he said (per store, per month):

- **Motor fuels gallons sold:** \$199,307
- **Breakout cents-per-gallon:** 8.71 cents
- **Merchandise sales:** \$147,995
- **Foodservice sales:** \$40,150
- **Store operating profit:** \$39,605
- **EBITDA:** \$37,565
- **Net profit margin (pretax/sales):** 3.63%

The top numbers point out significant disparities in performance among top and bottom performers — and even those somewhere in the middle — though collectively, the nearly sweeping increases in key categories among all segments emphasize an extremely healthy state of the industry, one where retailers are capitalizing on opportunities.

“We are starting to get it when it comes to foodservice,” Milam concluded. With strong fuel gross profits, a 46% increase in pre-tax earnings, and higher productivity, the convenience store industry is growing — but there is still work to be done, he said, referencing his opening remark caveats.

The callback was timely, leading in to the second half num-

bers presentation by Kevin Smartt, CEO of Kwik Check Food Stores, who covered category detail and regional performance.

While 2014 was indeed a superior year of performance, there is little in the sense of security when it comes to the convenience channel and an expanding roster of competitors.

Gasoline and tobacco are down, Smartt said, while “everything else” is on the rise — particularly foodservice. To continue to succeed, retailers must create an appealing environment for shoppers, offer appealing Choices, Customize offerings, including Craft or small batch versions, while continually focusing on Convenience (the five C’s).

“Take those five Cs back, take them to your team,” Smartt said, fresh insights to help grow sales and profits.

2014 was a monumental year of achievement, Smartt observed, a once-in-a-generation spike in performance where an industry pounced on opportunities for maximum results.

Yes, elements outside of retailers’ control (fuel margins) were favorable, but it still took a collective, strategic effort to generate such substantial returns. That’s a testament to NACS members and their relentless quest to innovate and improve, to set an ever-higher bar for achievement. And while 2015 may not bring such favorable returns, it’s a challenge Summit attendees seemed ready to face. **NACS**

Jerry Soverinsky is a Chicago-based freelance writer and a NACS Magazine contributing writer.